



# WEEKLY ECONOMIC DIGEST

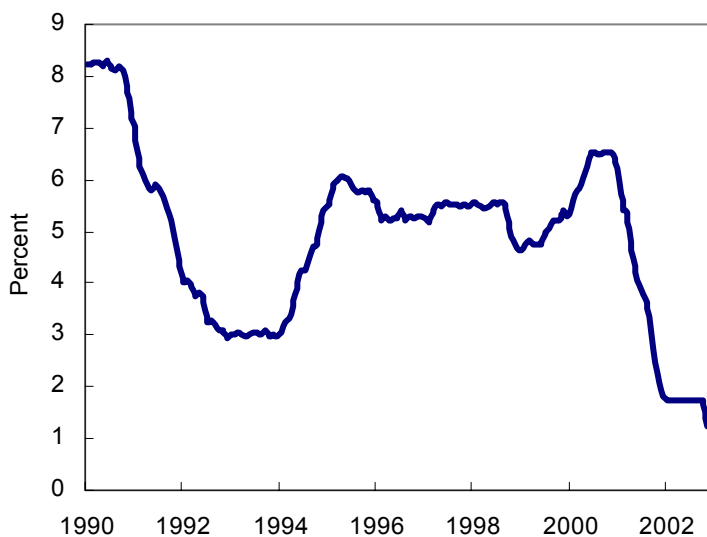


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
SENATOR JACK REED (D-RI) – VICE CHAIRMAN

November 13, 2002

## The Fed Cuts Interest Rates to Stimulate a Weakening Economy

FOMC Target for the Federal Funds Rate



Source: Board of Governors, Federal Reserve System.

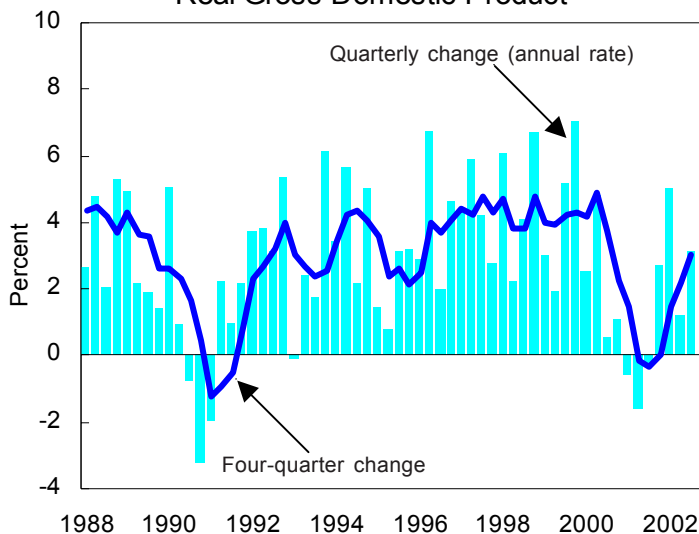
- **The Fed cut its interest rate target to 1.25 percent.** Amid mounting signs that the economy was weakening, the Federal Open Market Committee (FOMC) voted unanimously last week to drop its target rate for overnight federal funds by one-half percentage point to 1.25 percent. Recent declines in industrial production, purchases of consumer durables, new orders for nondefense capital goods, and payroll employment led most analysts to expect some easing. In fact, the cut was larger than expected. At the same time, however, the Fed signaled that it did not plan to cut rates any further in the near term.

- **A spurt of growth in the third quarter is unlikely to be sustained.** Real (inflation-adjusted) gross domestic product (GDP) grew at a 3.1 percent annual rate in the third quarter. Virtually all of that growth stemmed from a 4.2 percent rise in personal consumption expenditures, reflecting a surge in automobile demand in June and July. That surge has already begun to recede, and analysts expect it to be fully reversed in the current quarter.

- **Employment conditions weakened further in October.** Total weekly hours worked by those on private nonfarm payrolls dipped by 0.7 percent (at an annual rate) in the third quarter and then dropped by 4.7 percent in October. Private nonfarm payrolls shrank in October as factories shed nearly 50,000 jobs. The unemployment rate edged up by 0.1 percentage point last month, but it remained at its third-quarter average of 5.7 percent.

- **Forecasters expect slow growth in the near term.** Real GDP will grow just 1.6 percent at an annual rate in the fourth quarter, according to the November Blue Chip consensus—the average forecasts of approximately 50 leading private-sector forecasters. The Blue Chip consensus forecasts real GDP growth of 2.3 percent in 2002 and 2.8 percent in 2003. At those growth rates, the unemployment rate will remain near its current level through 2003. Many economists believe that the economy has to grow at 3 percent per year just to keep the unemployment rate from rising.

Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

<b>Economy At A Glance</b>	Oct	Sep	Aug	Jul	2002 Qrt 3	2002 Qrt 2	2002 Qtr 1	2001 Qtr 4	2001	2000
<b>Economic Activity</b>										
Real GDP (% growth)					3.1	1.3	5.0	2.7	0.3	3.8
Industrial Production (% growth)*		-1.2	-3.5	6.2	3.6	4.2	2.6	-6.7	-3.9	4.5
Capacity Utilization (Level, %)*		75.9	76.0	76.3	76.1	75.6	75.0	74.7	76.8	81.8
Civilian Unemployment Rate (Level, %)	5.7	5.6	5.7	5.9	5.7	5.9	5.6	5.6	4.8	4.0
Housing Starts (Thousands)		1843	1627	1645	1707	1667	1725	1573	1603	1573
Real Disposable Personal Income (% growth)		3.7	1.2	-1.2	2.7	3.6	14.5	-7.7	1.8	4.8
Retail Sales (% growth)*		-13.5	7.4	15.3	7.3	4.3	-2.5	12.7	3.8	6.7
Personal Saving Rate (Level, %)		4.2	3.4	3.4	3.7	4.0	3.5	0.8	2.3	2.8
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)		2.4	3.7	1.2	1.9	3.4	1.4	-0.3	2.8	3.4
Core CPI-U Inflation (% growth)		1.2	3.7	2.4	2.0	2.2	2.3	2.7	2.7	2.4
Compensation per Hour (% growth)					2.4	4.5	3.6	4.1	4.1	4.5
Output per Hour (% growth)					4.0	1.7	8.6	7.3	1.1	2.9
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	1.6	1.6	1.6	1.7	1.6	1.7	1.7	1.9	3.4	5.8
T-Note Rate, 10-years (Level, %)	3.9	3.9	4.3	4.7	4.3	5.1	5.1	4.8	5.0	6.0
Federal Funds Rate (Level, %)	1.8	1.8	1.7	1.7	1.7	1.8	1.7	2.1	3.9	6.2
Dow Jones Industrial Avg (Index level)	8048	8161	8685	8617	8488	9913	10105	9641	10189	10735

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Upcoming Economic Releases:

- **Advance Monthly Sales for Retail and Food Services, October** [Release: Thursday, November 14]
- **U.S. Import and Export Price Indexes, November** [Release: Thursday, November 14]
- **Industrial Production and Capacity Utilization, November** [Release: Friday, November 15]
- **Producer Price Indexes, October** [Release: Friday, November 15]